



**DANISH  
SHIP FINANCE**

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# Interim report – first half year 2016

## Danish Ship Finance – highlights of the first half of 2016

- The profit for the period after tax amounted to DKK 52 million compared with a profit of DKK 77 million in the first half of 2015.
- Earnings from lending before loan impairment charges for the first half of 2016 amounted to DKK 312 million, against DKK 329 million in the first half of 2015. Earnings from lending were positively impacted by a higher average DKK/USD exchange rate, but a decline in average lending detracted from performance.
- Loan impairment charges and write-offs in the first half of 2016 represented an expense of DKK 341 million, against an expense of DKK 124 million in the first half of 2015. Measured in lending currencies (primarily USD), accumulated loan impairment charges (allowance account) rose in the first half of 2016, primarily due to developments in the offshore segment.
- The allowance account accounted for 5.3% of total loans at 30 June 2016, against 4.4% at the same time last year and 4.3% at the end of 2015. Write-offs remain at a low level, amounting to 0.1% of loans at 30 June 2016.
- Overall, the market value of the mortgaged ships fell by 8.2% measured in USD, driven especially by a large decline in the dry bulk segment. After loan impairment charges, the portfolio's weighted average loan-to-value (LTV) ratio was 63%, which was unchanged from the end of 2015. Furthermore, 91% of all loans after loan impairment charges is covered within 60% of the market value of the mortgaged vessels, which is also unchanged from the end of 2015. In other words, the company retains a high degree of security for its loans.
- Falling interest rates and a small contraction of the credit spread on the company's portfolio of Danish mortgage bonds triggered a positive return on the securities portfolio of 1.3%, against a negative return of 0.7% in the first half of 2015.
- Loans before impairment charges fell by DKK 2.8 billion in the first half of 2016 driven by a depreciating US dollar and a net decrease in loans.
- The company retains a robust cash position, and there are only limited refinancing risks between issued bonds and loans disbursed as well as loan offers submitted. These moderate risks are amply covered by the company's own funds. The short-term liquidity requirement, LCR, has consistently been met with a large margin relative to the statutory limits.
- The capital ratio was 18.8% at the end of the first half of 2016, which is an increase from 17.3% at 31 December 2015. The profit for the period has not been recognised in the company's own funds. Accordingly, the capital ratio remains well above the individual solvency need, including the combined buffer requirement, which under the 8+ approach was 9.3% at 30 June 2016.
- In April 2016, an amount of DKK 413 million was distributed as dividend to the shareholders for the financial year 2015. Of this amount, Den Danske Maritime Fond received DKK 62 million.

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**KEY FIGURES FOR DANISH SHIP FINANCE A/S**

DKK MILLION	1st half 2016	1st half 2015	Full year 2015
Net interest income from lending	294	307	623
Net interest income from finance activities	108	134	242
Total net interest income	403	441	865
Net interest and fee income	420	464	906
Market value adjustments	49	-171	-177
Staff costs and administrative expenses	-60	-55	-113
Loan impairment charges etc.	-341	-124	-46
Profit/loss before tax	67	114	569
Profit/loss for the period	52	77	413
Loans	40,030	44,331	43,171
Bonds	21,580	23,654	19,100
Equity	10,017	10,041	10,378
Total assets	65,758	73,404	64,873

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**RATIOS**

	1st half 2016	1st half 2015	Full year 2015
Net interest and fee income from lending (DKKm)	312	329	664
Return on equity after tax (%)	0.5	0.7	3.8
Return on finance activities (%) *	1.3	-0.7	0.3
Tier 1 capital less deductions (DKKm)	9,817	9,871	9,896
Common Equity Tier 1 capital ratio	18.8	16.5	17.3
Cost/income ratio (%) **)	12.9	18.9	15.0
Equity as a % of lending	25.0	22.7	24.0
Write-offs on loans as a % of lending	0.1	0.1	0.2
Allowance account as a % of loans	5.3	4.4	4.3
Weighted loan-to-value ratio after loan impairment charges	63	65	64
Proportion of loans covered within 60% of market value (%)	91	91	91

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\*) *Return on finance activities is calculated exclusive of return from shares and currency.*

\*\*\*) *The calculation of the cost/income ratio does not include loan impairment charges.*

Unless otherwise indicated, the ratios are calculated in accordance with Appendix 5 of the Danish FSA's instructions for financial reporting in credit institutions and investment companies, etc.

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## **MANAGEMENT'S REVIEW**

The Board of Directors of Danish Ship Finance A/S has today considered the interim report for the first half of 2016.

Danish Ship Finance presents its financial statements in accordance with the rules set out in the Danish FSA's executive order on financial reports by credit institutions and investment companies, etc. ("executive order on financial reporting").

As in previous years, the interim report is unaudited and not reviewed.

### **Income statement**

The profit for the period after tax amounted to DKK 52 million compared with a profit of DKK 77 million in the first half of 2015.

Net earnings from lending including fee income fell in the first half of 2016 to DKK 312 million from DKK 329 million in the first half of 2015. The decline in total interest and fee income was primarily due to a decrease in loans. The average exchange rate of the USD relative to DKK was slightly higher than in the same period of 2015, which partly offset the lower interest and fee income.

Interest and dividend earnings from finance activities fell to DKK 108 million in the first half of 2016 from DKK 134 million in the first half of 2015 as a result of the very low level of interest rates.

Net interest and fee income fell to DKK 420 million from DKK 464 million in the first half of 2015.

Market value adjustments of securities and foreign exchange for the period amounted to an income of DKK 49 million compared with an expense of DKK 171 million in the first half of 2015. The securities portfolio consists primarily of Danish mortgage bonds, while a small proportion has been invested in Danish government bonds.

The option-adjusted duration – calculated according to the company's calculation model – of the portfolio of bonds and fixed-income instruments fell from 1.9 year at the end of 2015 to 0.7 years at 30 June 2016.

Staff costs and administrative expenses amounted to DKK 60 million in the first half of 2016 compared with DKK 55 million in the year-earlier period. The increase was primarily driven by higher costs for advisory services. The average number of employees was 68 during the first half of 2016, which is an increase of 1 employee relative to 2015.

Loan impairment charges for the first half of 2016 amounted to a net expense of DKK 341 million compared with an expense of DKK 124 million in the same period of last year. The higher loan impairment charges are consistent with the company's usual prudent practice and were primarily ascribable to the offshore segment.

Write-offs amounted to DKK 50 million in the first half of 2016, against DKK 45 million in the first half of 2015 and DKK 90 million in the full-year 2015.

In the first half of 2016, the individual impairment charges rose by DKK 479 million, while collective charges were reduced by DKK 171 million.

Tax on the profit for the period represents an expense of DKK 15 million against an expense of DKK 37 million in the first half of 2015.

## **Balance sheet and capital structure**

Total assets amounted to DKK 65,758 million at 30 June 2016, compared with DKK 64,873 million at 31 December 2015.

In the first half of 2016, total loans fell by DKK 3,141 million from DKK 43,171 million at 31 December 2015 to DKK 40,030 million at 30 June 2016, or a reduction of 7.3%. During the first half of 2016, there was an inflow of new loans of DKK 2,265 million and ordinary and extraordinary loan instalments of DKK 4,333 million. The rest of the decline in total loans was primarily due to exchange rate adjustments and depreciation and impairment charges for the period.

The total allowance account rose from DKK 1,958 million at year-end 2015 to DKK 2,265 million at 30 June 2016.

Total loan impairment charges made up 5.3% of total loans and guarantees as compared with 4.4% at 30 June 2015 and 4.3% at 31 December 2015.

Issued bonds increased by DKK 1,077 million, from DKK 45,067 million at 31 December 2015 to DKK 46,144 million at 30 June 2016. As part of its efforts to maintain a strong liquidity position, Danish Ship Finance regularly issues bonds in advance of the expected cash outflow resulting from new loans. This approach makes the company financially strong to short-term fluctuations in the capital market. During the first half of 2016, Danish Ship Finance issued bonds for DKK 3.9 billion (nominal value). Expiry and buybacks of bonds amounted to DKK 1.8 billion. The effect is an increase of the liquidity resources and the average maturity of outstanding bonds.

The bond portfolio amounted to DKK 21,580 million at 30 June 2016, against DKK 19,100 million at 31 December 2015. The bond portfolio can be attributed to investment of own funds, the repurchase of bonds and the investment of proceeds from issued bonds, which have not yet been disbursed as already granted or expected loans.

After giving effect to the retained profit for the period after tax, the company's equity amounted to DKK 10,017 million at 30 June 2016 as compared with DKK 10,378 million at 31 December 2015. An amount of DKK 413 million was distributed as dividend to the shareholders in accordance with the profit allocation in the annual report for 2015, which was adopted at the annual general meeting in March 2016.

Danish Ship Finance is subject to the capital adequacy rules of the Capital Requirements Regulation (CRR). At 30 June 2016, the capital ratio was calculated at 18.8%, which is an increase of 1.5 of a

percentage point relative to 31 December 2015. The profit for the period has not been recognised in the company's own funds.

The adequate own funds calculated in accordance with the credit reservation approach (the 8+ approach) amounted to DKK 4.9 billion at 30 June 2016, corresponding to a individual solvency need, including the combined buffer requirement, of 9.3%. This gives the company a solvency need buffer of 9.5 percentage points, corresponding to DKK 5.0 billion, at the end of June 2016.

### **Impact of US dollar on income statement, balance sheet and capital structure**

The average exchange rate of the USD vis-à-vis DKK for the first half of 2016 was just under 671 against 663 in the first half of 2015. Other things being equal, this had a positive impact on net interest and fee income of DKK 4 million.

The USD exchange at the balance sheet date fell 1.9% from 683.00 at year-end 2015 to 670.09 at 30 June 2016. Other things being equal, this had a positive impact on loan impairment charges in the amount of DKK 16 million.

The net profit after tax was increased by DKK 15 million from the change.

### **Events after the balance sheet date**

In the period until publication of the interim report, no material events have occurred that affect the financial statements.

### **The shipping market and competition**

The shipping market remains characterised by excess capacity in all key segments, resulting in generally low freight rates. The offshore sector is particularly hard hit because the lower oil prices have triggered a sharp drop in demand. The low oil prices have made new offshore activities less profitable for the oil companies. The dry bulk market bottomed out in February and has subsequently experienced slightly upward trending rates, although levels are still far from satisfactory. Following a couple of good years, the tanker market has slowed down, among other things due to a large inflow of new vessels. The container market continues to suffer from the delivery of too many vessels relative to demand, and given the current large order books, the segment will most likely be challenged for some time.

Competition in the market remained fairly unchanged relative to the past few years. Investment capacity has dropped in many shipping companies due to sluggish earnings in a number of segments. So while there is still demand for ship financing, it is not as strong as it used to be. The export credit institutions of Asia are still active in the market for financing newbuildings from the countries of the region.

## **Outlook for the second half of 2016**

Danish Ship Finance expects a small decline in loans in the second half, primarily owing to a drop in demand from the company's customer segment. The company retains its good competitive strength. More expensive sourcing of USD financing for new lending will weigh on the company's net earnings. This is due to developments in financial markets and, especially, the consequences of the ECB's asset purchase programme, which has made it more expensive to convert DKK funding into USD. Based on the company's A rating from Standard & Poor's, funding in Danish kroner is competitive.

The company continues to expect a lower profit than in 2015, Primarily because of a decline in loans. Danish Ship Finance cannot provide more specific financial guidance given the potential impact from market value adjustments and fluctuations in the USD/DKK exchange rate, which are the principal risk and uncertainty factors facing the company during the remaining six months of the financial year.

The company only publishes full-year and half-year reports as it is believed that more frequent reports would not affect the pricing of the bonds issued.

## **STATEMENT BY THE EXECUTIVE BOARD AND THE BOARD OF DIRECTORS**

The Board of Directors and the Executive Board have today considered and adopted the interim report for the period 1 January – 30 June 2016 for Danish Ship Finance A/S (Danmarks Skibskredit A/S).

The interim report has been prepared in accordance with the Danish Financial Business Act, including the executive order on financial reports presented by credit institutions and investment companies, etc. (“executive order on financial reporting”). In addition, the interim report is presented in accordance with additional Danish disclosure requirements for issuers of listed bonds.

In our opinion, the interim financial statements give a true and fair view of the company’s assets and liabilities and financial position at 30 June 2016 and of the results of the company’s operations for the period 1 January – 30 June 2016.

In our opinion, the management's review includes a fair review of developments in activities and financial position of the company and fairly describes significant risk and uncertainty factors that may affect the company.

Copenhagen, 22 August 2016

### **EXECUTIVE BOARD**

Erik I. Lassen

Per Schnack

### **BOARD OF DIRECTORS**

Peter Lybecker  
Chairman

Jesper T. Lok  
Deputy Chairman

Fatiha Benali

Jenny N. Braat

Marcus F. Christensen

Jan B. Kjærviik

Christopher Rex

Glenn Söderholm

Henrik R. Søggaard



## INCOME STATEMENT

NOTE	DKK MILLION	1ST HALF 2016	1ST HALF 2015	YEAR 2015
3	Interest income	786	1,022	1,886
4	Interest expenses	-383	-581	-1,021
	<b>Net interest income</b>	<b>403</b>	<b>441</b>	<b>865</b>
	Dividends on shares, etc.	-	0	0
	Fee and commission income	17	22	41
	Fees and commissions paid	-	-	0
	<b>Net interest and fee income</b>	<b>420</b>	<b>464</b>	<b>906</b>
5	Market value adjustments	49	-171	-177
	Staff costs and administrative expenses	-60	-55	-113
	Depreciation and impairment of property, plant and equipment	-1	-1	-1
8	Impairment charges on loans and receivables	-341	-124	-46
	<b>Profit before tax</b>	<b>67</b>	<b>114</b>	<b>569</b>
	Tax	-15	-37	-156
	<b>Net profit for the period</b>	<b>52</b>	<b>77</b>	<b>413</b>
	Other income	-	-	-
	<b>Total income for the period</b>	<b>52</b>	<b>77</b>	<b>413</b>

## BALANCE SHEET

NOTE	DKK MILLION	AT 30 JUNE 2016	AT 30 JUNE 2015	AT 31 DECEMBER 2015
	<b>ASSETS</b>			
	Due from credit institutions and central banks	1,756	3,507	731
6, 7	Loans at amortised cost	40,030	44,331	43,171
	Bonds at fair value	21,580	23,654	19,100
	Shares, etc.	16	18	19
	Land and buildings			
	Domicile property	64	64	64
	Other tangible assets	9	8	9
	Current tax assets	204	78	89
	Deferred tax assets	143	45	157
9	Other assets	1,957	1,699	1,533
	<b>Total assets</b>	<b>65,758</b>	<b>73,404</b>	<b>64,873</b>
	<b>LIABILITIES AND EQUITY</b>			
	<b>Liabilities</b>			
	Due to credit institutions and central banks	4,575	9,071	4,229
10	Issued bonds at amortised cost	46,143	49,313	45,067
	Other liabilities	5,023	4,979	5,200
	<b>Total liabilities</b>	<b>55,741</b>	<b>63,363</b>	<b>54,496</b>
11	<b>Equity</b>			
	Share capital	333	333	333
	Tied-up reserve capital	8,343	8,343	8,343
	Revaluation reserves	10	10	10
	Retained earnings	1,279	1,279	1,279
	Retained profit	52	77	413
	<b>Total equity</b>	<b>10,017</b>	<b>10,041</b>	<b>10,378</b>
	<b>Total liabilities and equity</b>	<b>65,758</b>	<b>73,404</b>	<b>64,873</b>
	<b>Off-balance sheet items</b>			
13	Contingent liabilities	294	324	312
14	Other binding agreements	1,889	3,336	2,330
	<b>Total off-balance sheet items</b>	<b>2,182</b>	<b>3,660</b>	<b>2,642</b>

## STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Tied-up reserve capital	Retained earnings	Proposed dividends for the financial year	Total
<b>Equity at 1 January 2015</b>	<b>333</b>	<b>8,343</b>	<b>1,289</b>	<b>1,181</b>	<b>11,146</b>
Dividends distributed	-	-	-	-1,181	-1,181
Net profit for the period	-	-	-	413	413
<b>Equity at 31 December 2015</b>	<b>333</b>	<b>8,343</b>	<b>1,289</b>	<b>413</b>	<b>10,378</b>
Dividends distributed	-	-	-	-413	-413
Net profit for the period	-	-	52	-	52
<b>Equity at 30 June 2016</b>	<b>333</b>	<b>8,343</b>	<b>1,341</b>	<b>-</b>	<b>10,017</b>

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**NOTE 1 ACCOUNTING POLICIES**

The interim financial statements have been prepared in accordance with the Danish Financial Business Act, including the Danish FSA's executive order on financial reports presented by credit institutions and investment companies, etc. ("executive order on financial reporting").

The interim financial statements are presented in Danish kroner (DKK) and in millions unless stated otherwise.

The accounting policies are unchanged from the policies applied in the financial statements for 2015. The annual report for 2015 contains a more detailed description of the accounting policies applied, including the definitions of the ratios used, which are calculated in accordance with the definitions in the executive order on financial reporting.

The measurement of certain assets and liabilities requires management estimates. The most significant estimates made by management in connection with recognition and measurement of these assets and liabilities and the most significant judgment uncertainty related thereto is the same in preparation of the half-year report for 2015 as in the preparation of the annual report for 2015.

	1ST HALF 2016	1ST HALF 2015	YEAR 2015
<b>KEY FIGURES AND RATIOS DKK MILLION</b>			
<b>NOTE 2</b>			
Net interest income from lending	294	307	623
Net interest income from finance activities	108	134	242
Total net interest income	403	441	865
Net interest and fee income	420	464	906
Market value adjustments	49	-171	-177
Staff costs and administrative expenses	-60	-55	-113
Loan impairment charges etc.	-341	-124	-46
Profit before tax	67	114	569
Net profit for the period	52	77	413
Loans	40,030	44,331	43,171
Bonds	21,580	23,654	19,100
Equity	10,017	10,041	10,378
Total assets	65,758	73,404	64,873

	1ST HALF 2016	1ST HALF 2015	YEAR 2015
<b>RATIOS</b>			
Common Equity Tier 1 capital ratio	18.8	16.5	17.3
Tier 1 capital ratio	18.8	16.5	17.3
Total capital ratio	18.8	16.5	17.3
Return on equity before tax (%)	0.7	1.1	5.3
Return on equity after tax (%)	0.5	0.7	3.8
Income/cost ratio (DKK) *)	1.2	1.6	4.5
Income/cost ratio (ex. impairment charges)	7.7	5.3	6.4
Foreign exchange position (%)	5.2	8.1	7.1
Gearing of loans	4.0	4.4	4.2
Growth in lending for the period (%)	-7.3	2.3	-0.4
Impairment ratio for the period	0.8	0.3	0.1
Accumulated impairment ratio	5.3	4.4	4.3
Rate of return on assets (%)	0.1	0.1	0.6

*The key figures are calculated in accordance with Appendix 5 of the Danish FSA's instructions for financial reporting in credit institutions and investment companies, etc.*

*\*) In accordance with the instructions, the cost/income ratio must be calculated including loan impairment charges. The list of key figures also includes a cost/income ratio in which the impairment charges are not included.*

DKK MILLION	1ST HALF 2016	1ST HALF 2015	YEAR 2015
<b>NOTE 3</b>	<b>INTEREST INCOME</b>		
Due from credit institutions and central banks	5	73	33
Loans and other receivables	666	713	1,407
Bonds	193	212	404
Other interest income	0	-	0
Derivatives			
Interest rate contracts	-78	25	38
Foreign exchange contracts	0	-1	3
<b>Total interest income</b>	<b>786</b>	<b>1,022</b>	<b>1,886</b>
Of this amount, income from genuine purchase and resale transactions recognised in:			
Due from credit institutions and central banks	4	68	25
Interest from own bonds recognised in:			
Bonds	0	1	1
<b>NOTE 4</b>	<b>1ST HALF 2016</b>	<b>1ST HALF 2015</b>	<b>YEAR 2015</b>
<b>INTEREST EXPENSES</b>			
Credit institutions and central banks	-1	-53	-4
Issued bonds	-302	-439	-828
Other interest expenses	-80	-90	-189
<b>Total interest expenses</b>	<b>-383</b>	<b>-581</b>	<b>-1,021</b>
Of this amount, interest expenses on genuine sale and repurchase transactions recognised in:			
Due to credit institutions and central banks	0	-52	-1
Interest from own bonds are deducted in:			
Issued bonds	0	1	1

DKK MILLION		1ST HALF 2016	1ST HALF 2015	YEAR 2015
<b>NOTE 5</b>	<b>MARKET VALUE ADJUSTMENTS</b>			
	Market value adjustment of bonds	582	-587	-560
	Market value adjustment of shares	-3	18	20
	Exchange rate adjustments	-5	25	33
	Market value adjustment of financial instruments	-524	373	331
	<b>Total market value adjustments</b>	<b>49</b>	<b>-171</b>	<b>-177</b>
<b>NOTE 6</b>	<b>LOANS AT AMORTISED COST</b>	<b>AT 30 JUNE 2016</b>	<b>AT 30 JUNE 2015</b>	<b>AT 31 DECEMBER 2015</b>
	At 1 January	43,171	43,347	43,347
	Additions	2,265	2,360	5,139
	Ordinary repayments and redemptions	-3,039	-3,512	-6,681
	Extraordinary prepayments	-1,295	-929	-2,000
	Net change concerning revolving credit facilities	-122	-337	-1,236
	Exchange adjustment of loans	-649	3,486	4,578
	Change in amortised cost for the year	7	52	7
	Depreciation, amortisation and impairment for the year	-307	-137	16
	<b>At the end of the period</b>	<b>40,030</b>	<b>44,331</b>	<b>43,171</b>



DKK MILLION	AT 30 JUNE 2016	AT 30 JUNE 2015	AT 31 DECEMBER 2015
<b>NOTE 7</b>			
<b>LOANS AT AMORTISED COST</b>			
Gross loans at exchange rates at the balance sheet date	42,295	46,397	45,128
Loan impairment charges	-2,265	-2,066	-1,958
<b>Total loans</b>	<b>40,030</b>	<b>44,331</b>	<b>43,171</b>
<b>Total loans broken down by due date:</b>			
Up to 3 months	3,057	1,802	2,312
From 3 months to 1 year	5,321	5,462	5,118
From 1 to 5 years	25,313	29,898	28,868
Over 5 years	6,339	7,170	6,873
<b>Total loans</b>	<b>40,030</b>	<b>44,331</b>	<b>43,171</b>
<b>Total loans</b>			
Loans at fair value	40,351	44,717	43,478
Loans at amortised cost	40,030	44,331	43,171
Loans at fair value is an approximation based on amortised cost with the addition of the value of fixed-rate loans.			
<b>Loans subject to individual impairment charges</b>			
Value of loans with objective evidence of impairment.			
Loans with more lenient repayment terms, incl. forbearance	4,113	3,059	2,653
Impairment charges	-1,055	-1,191	-875
<b>Total loans with more lenient repayment terms, incl. forbearance</b>	<b>3,058</b>	<b>1,868</b>	<b>1,777</b>
Other loans with objective evidence of impairment	1,702	820	1,521
Impairment charges	-470	-163	-172
<b>Total other loans with objective evidence of impairment</b>	<b>1,232</b>	<b>657</b>	<b>1,349</b>
<b>Total loans and receivables subject to individual impairment charges</b>	<b>4,290</b>	<b>2,525</b>	<b>3,127</b>

Reference is made to note 18 setting out LTV ranges for the entire loan portfolio and for loans subject to individual impairment charges.

DKK MILLION	AT 30 JUNE 2016	AT 30 JUNE 2015	AT 31 DECEMBER 2015
<b>NOTE 8</b>			
<b>IMPAIRMENT CHARGES</b>			
<b>The following impairment charges were made on loans</b>			
Individual impairment charges	1,526	1,354	1,047
Impairment charges with a collective component	739	712	910
<b>Total impairment charges</b>	<b>2,265</b>	<b>2,066</b>	<b>1,958</b>
<b>As a percentage of loans and impairment charges and guarantee commitments</b>			
Individual impairment charges	3.6	2.9	2.3
Impairment charges with a collective component	1.7	1.5	2.0
<b>Total impairment charges</b>	<b>5.3</b>	<b>4.4</b>	<b>4.3</b>
<b>Distribution of impairment charges</b>			
Amount set off against loans	2,265	2,066	1,958
Provisions made for other liabilities	-	-	-
<b>Total impairment charges</b>	<b>2,265</b>	<b>2,066</b>	<b>1,958</b>
<b>Movements in impairment charges</b>			
At 1 January	1,958	1,974	1,974
Additions	710	301	805
Reversal of impairment charges from previous years	-353	-164	-731
Losses covered by impairment charges from previous years	-50	-45	-90
<b>Total impairment charges</b>	<b>2,265</b>	<b>2,066</b>	<b>1,958</b>
<b>Losses on and impairment charges on receivables</b>			
New impairment charges	-710	-301	-805
Reversed impairment charges	353	164	731
Reclassification of interest	16	13	27
Received on claims previously written off	0	0	0
<b>Total losses on and impairment charges on receivables</b>	<b>-341</b>	<b>-124</b>	<b>-46</b>
<b>NOTE 9</b>			
<b>CSA COLLATERAL</b>			
<b>Collateral entered under CSA agreements</b>			
Received collateral	96	433	305
Provided collateral	-591	0	-213
<b>Net value of collateral entered under CSA agreements</b>	<b>-495</b>	<b>433</b>	<b>91</b>

The bonds received and sent have been recognised in the balance sheet so that they reduce the market values under derivative financial instruments by the market value of the bonds on the balance sheet date, and the portfolio of bonds at fair value is adjusted correspondingly by the net market value hereof.

DKK MILLION	AT 30 JUNE 2016	AT 30 JUNE 2015	AT 31 DECEMBER 2015
<b>NOTE 10 ISSUED BONDS AT AMORTISED COST</b>			
At 1 January	45,067	45,077	45,077
Additions in conjunction with block issues	3,920	6,895	7,021
Amortisation of cost	16	-30	88
Adjustment for hedge accounting	24	-53	-195
Exchange rate adjustment	-97	519	647
Own bonds	465	508	505
Ordinary and extraordinary redemptions	-3,251	-3,603	-8,076
<b>At the end of the period</b>	<b>46,143</b>	<b>49,313</b>	<b>45,067</b>
<b>Specification of issued bonds</b>			
<b>Bonds issued in DKK</b>			
Bullet bonds	40,186	43,252	39,627
Amortising CIRR bonds	896	912	854
<b>Total Danish bonds</b>	<b>41,082</b>	<b>44,164</b>	<b>40,481</b>
<b>Bonds issued in foreign currency</b>			
Amortising CIRR bonds, at period-end exchange rates	5,062	5,611	5,048
<b>Total bonds issued in foreign currency</b>	<b>5,062</b>	<b>5,611</b>	<b>5,048</b>
Own bonds	0	-462	-462
<b>Total issued bonds</b>	<b>46,143</b>	<b>49,313</b>	<b>45,067</b>
<b>Broken down by term to maturity</b>			
Up to 3 months	-	-	0
From 3 months to 1 year	4,994	3,742	1,582
From 1 to 5 years	33,289	30,561	30,058
Over 5 years	7,860	15,472	13,889
<b>Issued bonds, total before setting off against portfolio of own bonds</b>	<b>46,143</b>	<b>49,775</b>	<b>45,529</b>
Own bonds	0	-462	-462
<b>Total issued bonds</b>	<b>46,143</b>	<b>49,313</b>	<b>45,067</b>

DKK MILLION	AT 30 JUNE 2016	AT 30 JUNE 2015	AT 31 DECEMBER 2015
<b>NOTE 11 EQUITY</b>			
<b>Share capital</b>			
A shares	300	300	300
B shares	33	33	33
<b>Total share capital</b>	<b>333</b>	<b>333</b>	<b>333</b>
Tied-up reserve capital	8,343	8,343	8,343
Revaluation reserves	10	10	10
Retained earnings	1,279	1,279	1,279
Retained profit	52	77	0
Proposed dividend for the financial year	-	-	413
<b>Total equity</b>	<b>10,017</b>	<b>10,041</b>	<b>10,378</b>

The share capital is divided into the following denominations

A shares 300,000,000 shares of DKK 1.00 each  
 B shares 33,333,334 shares of DKK 1.00 each

Each A share of DKK 1.00 entitles the holder to 10 votes.  
 Each B share of DKK 1.00 entitles the holder to 1 vote.

DKK MILLION	AT 30 JUNE 2016	AT 30 JUNE 2015	AT 31 DECEMBER 2015
<b>NOTE 12 CAPITAL ADEQUACY</b>			
<b>Common Equity Tier 1 capital</b>			
Share capital A-shares	300	300	300
Share capital B-shares *)	20	33	33
Tied-up reserve capital	8,343	8,343	8,343
Retained earnings	1,279	1,279	1,692
Revaluation reserves	10	10	10
Retained profit	52	77	-
<b>Total Common Equity Tier 1 capital</b>	<b>10,003</b>	<b>10,041</b>	<b>10,378</b>
<b>Deductions in Common Equity Tier 1 capital</b>			
Proposed dividend	-	-	413
Retained profit	52	77	-
Additional straining relative to the Executive Order on a Ship Finance Institute	104	60	41
Prudent valuation pursuant to article 105 of CRR	30	34	27
<b>Total deductions in Common Equity Tier 1 capital</b>	<b>186</b>	<b>170</b>	<b>481</b>
<b>Common Equity Tier 1 capital less deductions</b>	<b>9,817</b>	<b>9,871</b>	<b>9,896</b>
<b>Tier 1 capital less deductions</b>	<b>9,817</b>	<b>9,871</b>	<b>9,896</b>
<b>Weighted items</b>			
Weighted items not included in the trading portfolio	42,849	46,462	44,108
Weighted off-balance sheet items	1,236	1,990	1,475
Weighted items involving counterparty risk outside the trading portfolio	1,377	1,954	1,470
Weighted items involving market risk	5,200	7,493	8,494
Weighted items involving operational risk	1,687	1,884	1,687
<b>Total weighted items</b>	<b>52,348</b>	<b>59,782</b>	<b>57,234</b>
<b>Common Equity Tier 1 capital ratio</b>	<b>18.8</b>	<b>16.5</b>	<b>17.3</b>
<b>Tier 1 capital ratio</b>	<b>18.8</b>	<b>16.5</b>	<b>17.3</b>
<b>Total capital ratio</b>	<b>18.8</b>	<b>16.5</b>	<b>17.3</b>
<b>Weighted items with market risk, consist of:</b>			
Items with position risk: Debt instruments	4,660	6,656	7,756
Items with position risk: Shares	32	35	39
Total currency position	509	802	700
<b>Total weighted items with market risk</b>	<b>5,200</b>	<b>7,493</b>	<b>8,494</b>

\*) At 30 June 2016 recognised at 60 % pursuant to article 484 of CRR.

DKK MILLION	AT 30 JUNE 2016	AT 30 JUNE 2015	AT 31 DECEMBER 2015
<b>NOTE 13</b>	<b>CONTINGENT LIABILITIES</b>		
In the ordinary course of its lending operations, Danish Ship Finance has undertaken guarantee commitments of			
	290	321	309
Payment guarantee provided to the Danish Securities Centre			
	2	2	2
Guarantees provided to the Danish Securities Centre			
	1	1	1
	<b>294</b>	<b>324</b>	<b>312</b>

<b>NOTE 14</b>	<b>OTHER BINDING AGREEMENTS</b>		
In the ordinary course of its lending operations, Danish Ship Finance has undertaken commitments in relation to unutilised drawing rights on loans with revolving credit facilities in the amount of			
	463	103	481
In the ordinary course of its lending operations, Danish Ship Finance has undertaken commitments relating to irrevocable credit commitments on other loans in the amount of			
	1,426	3,233	1,850
	<b>1,889</b>	<b>3,336</b>	<b>2,330</b>

**NOTE 15 RELATED PARTIES**

Related parties comprise members of the company's Executive Board and Board of Directors. Related parties also comprise shareholders who hold more than 20% of the shares or more than 20% of the voting rights in the company.

Transactions with the Executive Board and Board of Directors only concern remuneration.

Other related-party transactions involving deposits and debt and transactions with financial instruments in the form of swap agreements, forward currency agreements, forward rate agreements and forward securities transactions, etc. are made on an arm's length basis. In special cases, however, the terms and conditions are made in accordance with shipyard subsidy schemes or international rules on government participation in the financing of newbuildings.

The company has no related parties with a controlling influence.

DKK MILLION

**NOTE 16 EXCHANGE RATE RISK AND USE OF DERIVATIVES  
AT 30 JUNE 2016**

The total unhedged foreign currency position at 30 June 2016 translated at balance date exchange rates into DKK amounts to DKK 509 million (DKK 700 million at 31 December 2015).

All amounts are translated into DKK at the balance date exchange rates.

The net position is specified as follows:

	USD	OTHER CURRENCIES	TOTAL CURRENCY	DKK	TOTAL
Loans at year-end exchange rates	35,601	4,978	40,579	1,716	42,295
Loan impairment charges	-	-	-	-2,265	-2,265
<b>Loans as per the balance sheet</b>					<b>40,030</b>
Due from credit institutions and central banks	673	84	757	999	1,756
Bond portfolio	-	257	257	21,323	21,580
Interest receivable, etc.	254	56	310	48	358
Other assets	-	-	0	2,034	2,034
<b>Total assets as per the balance sheet</b>	<b>36,527</b>	<b>5,376</b>	<b>41,903</b>	<b>23,855</b>	<b>65,758</b>
Issued bonds at year-end exchange rates	-4,265	-	-4,265	-41,878	-46,143
<b>Issued bonds as per the balance sheet</b>					<b>-46,143</b>
Due to credit institutions and central banks	-	-341	-341	-4,234	-4,575
Interest payable	-121	-9	-130	-369	-500
Other payables	-	-	0	-4,523	-4,523
Total equity	-	-	-	-10,017	-10,017
<b>Total liabilities as per the balance sheet</b>	<b>-4,386</b>	<b>-350</b>	<b>-4,736</b>	<b>-61,022</b>	<b>-65,758</b>
Derivatives					
- receivables	2,825	5,053	7,878		
Derivatives					
- payables	-34,446	-10,089	-44,535		
<b>Total net position</b>	<b>520</b>	<b>-11</b>	<b>509</b>		

(translated into DKK)

DKK MILLION	AT 30 JUNE 2016	AT 30 JUNE 2015	AT 31 DECEMBER 2015
<b>NOTE 17 MARKET RISK SENSITIVITY</b>			
<b>Interest rate risk</b>			
The company has substantial equity, which is invested primarily in Danish government and mortgage bonds. Some of the bond investments are in fixed-rate claims where the interest rate risk is partly hedged using DKK or EUR interest rate swaps. In the company's internal calculations, EUR rates and DKK rates are assumed to be fully correlated.			
Calculated in accordance with internal calculation methods, the interest rate risk associated with a 1 percentage point increase in interest rates would technically lead to:	-105	-131	-244
Calculated in accordance with internal calculation methods, the interest rate risk associated with a 1 percentage point decrease in interest rates would technically lead to:	43	110	150
<b>Exchange rate risk</b>			
Most of the company's loans are denominated in USD. Most of the ship mortgages provided as collateral for the loan are also denominated in USD. When calculating the mortgage value of the ship mortgages for determining the level of impairment, a deduction is made relative to the market value of the vessel. See note 1 Accounting policies. For loans on which loan impairment charges have been made, there will typically be a difference in USD between the size of the credit exposure and the mortgage values. Other things being equal, the loan impairment charges will therefore be adversely affected in case of an increase and positively affected by a fall in the USD/DKK exchange rate. Since a small proportion of the loans are denominated in currencies other than USD, while the ship mortgage in question is valued in USD, the total positive net effect from a fall in the USD/DKK exchange rate is reduced, and the sensitivity is thus not symmetric in case of changes in the USD/DKK exchange rate.			
Furthermore, earnings from lending is primarily denominated in USD, which means that, other things being equal, an increase in the USD/DKK rate would result in higher earnings from lending and vice versa if the USD/DKK rate falls.			
An appreciation of the USD exchange rate vis-à-vis DKK			
Change in profit/loss and equity	-85	-171	-88
Percentage change in solvency	-1.8	-1.8	-1.6
A depreciation of the USD exchange rate vis-à-vis DKK			
Change in profit/loss and equity	2	133	34
Percentage change in solvency	2.2	2.1	1.9
The impact on the profit/loss and equity from a change in the exchange rate of USD assumes a permanent change of DKK 1 for an entire financial year. The impact comprises the change in the value of ongoing net interest and fee income as well as the change in the need for impairment charges due to the change in the exchange rate of USD.			
The impact on solvency on a change in the exchange rate of USD will occur immediately after the exchange rate change, as most of the loans, guarantees and loan offers are made in that currency.			



DKK MILLION	AT 30 JUNE 2016	AT 30 JUNE 2015	AT 31 DECEMBER 2015
<b>NOTE 18 CREDIT RISK</b>			
<b>Credit exposure, loans and guarantees</b>			
Balance sheet			
Loans at amortised cost	40,030	44,331	43,171
Other receivables	158	164	165
Allowance account	2,265	2,066	1,958
<b>Total balance sheet items</b>	<b>42,453</b>	<b>46,561</b>	<b>45,293</b>
Off-balance sheet items			
Guarantees	290	321	309
<b>Total off-balance sheet items</b>	<b>290</b>	<b>321</b>	<b>309</b>
<b>Total loans and guarantees</b>	<b>42,743</b>	<b>46,882</b>	<b>45,602</b>
<b>Financial exposure</b>			
Due from credit institutions and central banks	1,756	3,507	731
Bonds at fair value	21,580	23,654	19,100
Shares, etc.	16	18	19
Derivatives	1,534	1,283	1,233
<b>Total financial exposure</b>	<b>24,886</b>	<b>28,461</b>	<b>21,084</b>

#### CREDIT RISK IN THE LOAN PORTFOLIO

Exposures before loan impairment charges broken down by classification intervals, measured in terms of nominal residual debt (DKKm).

CLASSIFICATION	LOANS AND GUARANTEES 30 JUNE 2016	LOANS AND GUARANTEES 30 JUNE 2015	LOANS AND GUARANTEES 31 DEC. 2015
1 - 2	0	0	0
3 - 4	9,484	10,789	10,144
5 - 6	10,771	15,608	11,493
7 - 8	15,520	13,076	17,198
9 - 10	1,153	3,530	2,593
11	5,601	3,527	3,864
12	214	352	310
<b>Total</b>	<b>42,743</b>	<b>46,882</b>	<b>45,602</b>

Classifications 11 and 12 are loans with OEI.

**NOTE 18 , CREDIT RISK  
CONTINUED**

**Maximum credit risk without regard to collateral**

All loans have been reviewed to identify any evidence of impairment. The company believes that the carrying amount of loans subsequently stated best represents the maximum credit risk without regard to collateral in the form of ship's mortgages.

**Description of collateral**

All loans are granted against collateral and, except for building loans, are granted against a first mortgage in ships, assignment in respect of the ship's primary insurances and where relevant, supplementary collateral.

**Percentage distribution of loans and guarantees after impairment calculated in the LTV intervals, measured in terms of nominal residual debt.**

<b>LOAN-TO-VALUE RANGE</b>	<b>SHARE OF LOANS 30 JUNE 2016</b>	<b>SHARE OF LOANS 30 JUNE 2015</b>	<b>SHARE OF LOANS 31 DEC. 2015</b>
0 - 20 %	34%	32%	33%
20 - 40 %	32%	32%	33%
40 - 60 %	25%	27%	25%
60 - 80 %	8%	8%	8%
80 - 90 %	1%	1%	1%
90 - 100 %	0%	0%	0%
Over 100 %	0%	0%	0%

Loans for shipbuilding financing is included in the "over 100%" category in the table above. No mortgage is registered on vessels during the building period, but the company receives a guarantee from the borrower, and is secured through assignment and subrogation in the building contract and subrogation in the refundment guarantee provided by the shipyard's bank. Loans for shipbuilding accounted for 0.0% of the loan portfolio at 31 December 2016 (0.0% in 2015).

It appears from the table above that 91% (91% in 2015) of the loan amounts is secured through mortgages within 60% of the most recently calculated market value of the mortgage, and 99% (99% in 2015) of the loans are within 80% of the most recently calculated market value of the mortgage.

The weighted loan-to-value ratio on the loan portfolio was 63% (63% in 2015) after impairment charges.

The market value of the ships in the loan portfolio has aggregatedly decreased by 9.9% since the end of December 2015 measured in DKK and declined by 8.2% in USD.

**Credit quality on loans neither subject to default or impairment**

All loans have been reviewed to identify any evidence of impairment, and the company has made the impairment charges it considered necessary.

The credit quality of loans that are subsequently not subject to impairment or arrears, is considered strong.

**Arrears**

There are no loans in arrears on which the company has not made impairment charges.

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**NOTE 18 , CREDIT RISK  
CONTINUED**

Percentage distribution of loans and guarantees subject to individual charges, cf. Note 8.  
The distribution is made after impairment charges calculated in the LTV ranges (by nominal outstanding debt).

LOAN-TO-VALUE RANGE	SHARE OF LOANS 30 JUNE 2016	SHARE OF LOANS 30 JUNE 2015	SHARE OF LOANS 31 DEC. 2015
0 - 20 %	35%	34%	35%
20 - 40 %	35%	33%	35%
40 - 60 %	25%	26%	22%
60 - 80 %	5%	6%	8%
80 - 90 %	0%	1%	0%
90 - 100 %	0%	0%	0%
Over 100 %	0%	0%	0%

It appears from the table above that 95% (92% in 2015) of the loan amounts is secured through mortgages within 60% of the most recently market value of the mortgage, and 100% (100% in 2015) of the loans are within 80% of the most recently calculated market value of the mortgage.

The weighted loan-to-value ratio on loans subject to individual charges was 60% after impairment charges (62% in 2015).

**NOTE 19 SUPPLEMENTARY NOTES WITHOUT REFERENCE**

The list of figures and ratios is set out in the management's review, to which reference is made.

The description of financial risks and policies for financial risk management is set out in the risk management section of the annual report for 2015, to which reference is made.